Tax Liability on the Family Cottage

The Jones' own a vacation property that they ultimately want to pass along to their three children. They have made provisions in their Will naming their children beneficiaries.

The Problem

While your principal residence is exempt from capital gains tax, generally a second property such as a cottage won't be. Consequently, there may be a capital gains liability triggered if Mr. and Mrs. Jones were to pass away. Because this tax bill would need to be paid by the estate, if there are insufficient funds to cover the tax bill, the cottage may need to be sold.

Potential Solutions if Funds are Unavailable to Pay Capital Gain Tax on the Family Cabin

- Start saving today for the future tax liability.
- Your beneficiaries can borrow funds from the bank to pay the tax liability.
- Your estate can sell the cottage.

❋ **Purchase Life Insurance to cover the anticipated tax liability**. Not only can life insurance provide the necessary funds, but it can also be used as a planning tool if not all the children are interested in keeping the cottage. The cottage could be left to the child who wants it, and a cash payment could be made to the other children instead.

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